BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2001-4-G - ORDER NO. 2001-886

AUGUST 30, 2001

IN RE: Annual Review of the Purchased Gas Adjustment and the Gas Purchasing Policies of Piedmont Natural Gas Company.	)))	ORDER RULING ON GAS COSTS AND GAS PURCHASING POLICIES

This matter comes before the Public Service Commission of South Carolina (the Commission) on its annual review of the Purchased Gas Adjustment (PGA) and gas purchasing practices of Piedmont Natural Gas Company (Piedmont or the Company). This review is being made pursuant to the provisions and requirements of Order No. 88-294, dated April 6, 1988.

By letter, the Commission's Executive Director instructed the Company to publish a prepared Notice in a newspaper of general circulation in the area affected by the Company's Application. The Notice indicated the nature of the annual review and advised all interested parties of the manner and time in which to file appropriate pleadings for participation in the proceedings. The Company was instructed to directly notify all of its customers affected. The Company submitted affidavits indicating that it had complied with these instructions. The Consumer Advocate for the State of South Carolina (the Consumer Advocate) intervened in the proceedings.

A hearing was held on this matter on August 14, 2001 at 2:30 PM in the Commission's hearing room, with the Honorable William Saunders, Chairman, presiding. Piedmont was represented by John Schmidt, Esquire and Jerry W. Amos, Esquire.

Piedmont presented the direct testimony of Ann H. Boggs and the direct and rebuttal testimony of Keith P. Maust, Chuck Fleenor and Thomas E. Skains. The Consumer Advocate was represented by Hana Pokorna-Williamson, Esquire. The Consumer Advocate presented the testimony of Steven W. Ruback. The Commission Staff (the Staff) was represented by F. David Butler, General Counsel. The Staff presented the testimony of Roy H. Barnette and Brent L. Sires.

Piedmont witness Keith P. Maust presented testimony describing Piedmont's gas purchasing policies. According to witness Maust, Piedmont has and continues to maintain a "best cost" purchasing policy, which consists of five main components: the price of gas, the security of the gas supply, the flexibility of the gas supply, gas deliverability, and supplier relations. Maust described each of the five components on Piedmont's "best cost" gas purchasing policy and the steps taken during the review period to comply with that policy. Maust stated that Piedmont is satisfied that the policies and procedures presently in place are prudent and that the policies and procedures have produced adequate amounts of reasonably priced gas for Piedmont's customers.

Maust testified that Piedmont did not make any changes in its "best cost" gas purchasing policies or practices during the year, but Maust outlined additional steps taken by Piedmont to manage its gas costs, consistent with its overall "best cost" policy. Included among the additional steps outlined by Maust of Piedmont managing its gas costs consistent with its "best cost" policy are (1) Piedmont has actively participated in renegotiating and restructuring eligible supply and capacity contracts to take advantage of market opportunities; (2) Piedmont has utilized the flexibility within its supply and capacity contracts to purchase and dispatch gas, and release capacity, in the most cost effective manner, resulting in South Carolina capacity release credits of $1,815,991 during the test period; (3) Piedmont has actively promoted more efficient peak day use of natural gas and load growth from "year-round" markets, in order to improve the Company's load factor and reduce average unit costs; (4) Piedmont has actively participated in proceedings before the FERC and other regulatory agencies that could reasonably be expected to affect Piedmont's rates and services; and (5) Piedmont has reviewed its gas supply activities with its internal Planning Committee, in order for the gas supply department to receive input and direction on its performance and planning activities.

Company witness Ann H. Boggs' testimony attests that current true-up procedures result in a properly stated cost of gas and that Piedmont's gas costs are properly recorded in compliance with Piedmont's Gas Cost Recovery Mechanism as approved by the Commission. Further, Boggs stated that the Deferred Account balance is properly stated at March 31, 2001.

Piedmont witness Chuck Fleenor discussed the Company's storage services and benefits to the Company's ratepayers.

The Consumer Advocate presented the testimony of Steven W. Ruback. Ruback addressed the need for a hedging program for the Company, stating that such a program could help stabilize the cost of gas. Ruback also questioned the 5% reserve margin kept by Piedmont, and questioned the treatment of off-system sales of gas. Piedmont, through rebuttal testimony by Company witness Maust, agreed that a voluntary hedging program could be implemented by Piedmont. Company witness Fleenor filed rebuttal testimony to explain the need for the 5% reserve margin of gas. Thomas E. Skains also filed Company rebuttal testimony to discuss and oppose Ruback's proposal to credit Piedmont's off-system sales margins to the PGA.

Staff witness Roy H. Barnette presented testimony that the Audit Staff had reviewed the monthly filings made by the Company and the activity included in Account No. 253.04 for the period April 2000 through March 2001. Barnette proposed certain adjustments with the net effect of these adjustments increasing the under-collection at March 31, 2001 by $303,970. Barnette testified that it was Staff's opinion that the adjusted balance at March 31, 2001 of $4,757,087 fairly represents the undercollection by Piedmont and that the amount is accurately stated and in compliance with prior Commission Orders. All of the parties agreed with the adjustments proposed by the Commission Staff. Barnette, as a part of these adjustments, proposed that interest be computed at the actual earned rate of return of 9.60% for the twelve months ended March 31, 2001.

In addition, Barnette and the Staff completed the Commission's required audit of the former United Cities Gas Company, Inc.'s deferred cost of gas. Piedmont purchased the assets related to the Gaffney, South Carolina operations from Atmos Energy Corporation, during the review period. This Commission had approved that purchase through Order No. 2001-007. In compliance with that Order, Piedmont has separately accounted for the gas costs for former Atmos customers from the effective date of the acquisition through March 31, 2001. The Audit Staff has reviewed the calculations included in the PGA true-up and traced amounts included in the calculations to the books and records of the Company. It is Staff's opinion that the balance at March 31, 2001 of a net over-collection of ($412,793) is accurately stated and fairly represents the over-collection by the former United Cities Gas Company, Inc. for the six (6) months ended December 31, 2000 and by Piedmont Natural Gas Company, Inc. for the three months ended March 31, 2001. The proposed decrement of (.0171) per therm is designed to return the over collection to ratepayers during the twelve month period beginning June 1, 2001. With the filing of Gas Cost Recovery (GCRM) #99 effective June 1, 2001, Piedmont included a decrement in the Gaffney customers' rates of (.0169) per therm. Barnette suggests that any variances remaining at the end of the twelve month refund period be charged or credited to Piedmont's consolidated deferred cost of gas account No. 253.04.

Brent Sires of the Commission Staff also presented testimony. Sires testified that the Utilities Department has found that the Company's PGA is being operated in compliance with the various appropriate Commission Orders. Staff's review, as per witness Sires, indicated that $6.15 per dekatherm benchmark cost of gas was appropriate. Sires expressed the opinion that this benchmark cost of gas is representative of the Company's gas cost on average through October 31, 2001.

Sires further stated that the Company is acting prudently in arranging for supplies to meet the requirements of its firm customers today, as well as in the future. Sires also offered that his observations of Piedmont's gas purchasing policies indicate that Piedmont is continuing its attempts to get the best terms available in its negotiations with suppliers and that Piedmont is meeting its obligation to maintain adequate supplies at just and reasonable costs to serve its customers.

Based on the record as a whole, the Commission concludes that the Company's gas purchasing practices and policies are prudent. Staff has stated its opinion that Piedmont is operating and acting prudently in arranging for supplies to meet the requirements of its firm customers and further opined that Piedmont is meeting its obligation to maintain adequate supplies at just and reasonable costs to serve its customers.

Further, we adopt the benchmark cost of gas of $6.15 per dekatherm. Staff has supported the position that this benchmark cost of gas is representative of the Company's gas cost on average through October 31, 2001.

We concur with the idea that Piedmont should file a hedging program for our approval. Hedging has been successfully used by South Carolina Pipeline Corporation to stabilize somewhat its cost of gas. We believe that Piedmont and its customers could enjoy some of the same benefits of such a program.

IT IS THEREFORE ORDERED THAT:

1. Piedmont is hereby permitted to maintain its commodity cost of gas at $6.15 per dekatherm, as requested in Piedmont's filing. This amount is without prejudice to Piedmont's right to further revise the benchmark in accordance with provisions of its PGA, if future conditions warrant, and is without prejudice to the parties' right to request review of the benchmark in accordance with the Commission's PGA provisions.

2. The current procedures in Piedmont's PGA result in a properly stated cost of gas recorded in compliance with Commission Orders, and the Deferred Account activity was properly recorded and reported to the Commission as required.

3. The Company's gas purchasing practices and policies are hereby found to be prudent.

4. All Staff adjustments to the Deferred Account balances are adopted.

5. Within sixty (60) days of the date of this Order, Piedmont shall file a hedging program for this Commission's approval. As part of the hedging application, the Company shall include the utilization of storage and how a hedging program could benefit the utilization of storage. Additionally, Piedmont shall examine the opportunity to incorporate into its hedging program the purchase of a gas supply that satisfies the Company's 5% reserve margin.

6. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Chairman

ATTEST:

Executive Director
(SEAL)